

June 24, 2005

To the Honorable
Committee on Finance and Personnel
Common Council
City of Milwaukee

Re: File Number 050175 Communication from the Department of Employee Relations transmitting a communication relating to a study of the City of Milwaukee's Management Pay Plan.

Dear Committee Members:

The Department of Employee Relations (DER) is currently assessing the City's Management Pay Plan in an effort to determine the City's ability to attract, retain, and motivate qualified individuals in these critical positions. This assessment is also intended to identify best compensation and pay practices used by other public sector employers addressing similar fiscal and employment/labor-related challenges facing the City of Milwaukee.

At the request of the Chair of the Finance and Personnel Committee this communication provides a status report of this review relative to two critical areas:

- (1) Internal compensation and pay practices that represent challenges given the structure of the Management Pay Plan.
- (2) Preliminary findings stemming from a survey of management compensation and pay practices of other municipal employers in the state and other U.S. cities.

It is important to recognize that this communication is intended to provide a summary of preliminary findings in terms of pay practices and does not present recommendations for changes to the Pay Plan at this time. DER will continue to analyze survey results (specifically salary comparisons for key benchmark jobs) and other trends in public sector compensation before recommendations are made and presented to the Common Council in the fall of 2005.

Background

The framework under which the City's current management classification and pay administration practices were developed was created in 1987 with the implementation of the Management Pay Plan. Over the years organizational changes, budgetary reductions, and shifts in the labor market have resulted in adjustments to the Plan. These adjustments have required the reclassification/reallocation of management positions and a shift from an open range/pay for performance structure to a time based step system. Other changes to pay and benefit programs have not kept pace with those negotiated for represented employee groups. This has served as a disincentive for employees to be attracted to promotional opportunities within the City's management ranks.

In December of 2004 the Council approved a wage and benefit package for management employees that included a 2.5% increase in rates of pay for 2005 and enhanced funeral leave and pension credit benefits consistent with those negotiated with bargaining units. The Council also approved changes in tuition benefits, sick leave incentive program, and vacation usage eligibility for management employees only. No wage increases were proposed for 2006 in recognition of the need for a comprehensive review of the City's compensation and pay practices for management employees.

Internal Compensation and Management Pay Plan Practices

There are certain components of the Management Pay Plan that are in need of review based on concerns and challenges identified by DER, difficulties encountered by operating departments and appointing authorities in attracting and retaining management employees, and the desire to simply keep pace with shifts in public sector pay practices and trends. These areas include:

Classification Streamlining and Redesign

The number of titles/classifications in the Management Pay Plan has grown significantly over the years. The current title structure is not conducive to the identification of natural career paths and progression for management employees within distinct occupational categories or groups. One of the trends in public sector compensation is to streamline the number of classifications by consolidating single/low number of incumbent classes, broadening career fields focusing on career growth and management initiatives, and incorporating experience, skill and competency level into job family design decisions. These practices have the impact of simplifying the job analysis/job evaluation processes used in supporting a valid classification structure.

Job Evaluation Methodology

Since the implementation of the Pay Plan in 1987, the City has been relying on a point factor system to determine the "value" of each job within the City structure. This system involves the use of compensable factors to evaluate relative job worth. The factors and levels associated with this system need to be re-assessed to maintain its integrity. Consistent with the original consultant recommendations, once the pay structure is designed, it must be "priced" properly. Market considerations must be incorporated into job evaluation decisions in order to maintain a structure that is not only internally equitable but also retains its ability to be externally competitive.

Job versus Individual-based Value considerations in the Job Evaluation Program

Many public sector organizations are examining individual-based value along with job-based considerations in determining internal grade/pay relationships and employee movement through the structure. While the City has traditionally used a job-based value approach in classifying positions, consideration should be given to the benefits and fiscal constraints associated with a pay program or practice that recognizes that specialized credentials (beyond those required for the job) can add value to the organization and create an incentive for professional development and growth.

Administrative Considerations in Determining Salaries after Promotions

The promotional increase for employees promoted into the Management Pay Plan is the rate of pay in the new salary grade which is at least 3% above the rate of pay the employee is receiving at the time of the promotion. Current practices in determining the rate of pay do not take into

consideration non-base-pay compensation employees may be receiving outside of the Management Pay Plan such as overtime, premium pay, special attainment steps, certification pay and others. This has the potential of creating a disincentive for employees who may perceive that the amount of the salary increase to become a manager or supervisor may not be adequate given the increased level of responsibility.

Practices Associated with Determining Eligibility for Step Increases

The Salary Ordinance states that management employees, who demonstrate fully satisfactory performance, are eligible for salary increments of one step per year based upon the recommendation of the appointing authority after an appropriate review of job performance. Under this provision, annual performance reviews are to be conducted in accordance with guidelines established by DER. However, there is no universal or consistent methodology (tool, form, or other instrument) used by City agencies in making determinations as to whether the manager's performance is satisfactory and a step increase should be authorized. Many departments have developed their own tools or protocols to be followed in making such determinations but DER does not oversee or monitor such systems. This is problematic when considering that it is feasible that some managers are receiving step increases without the appropriate review of job performance as required by the Salary Ordinance. It also represents a potential challenge to a department's ability to justify a salary adjustment denial in a hearing before the City Service Commission.

Management Compensation and Pay Plan Survey - Methodology and Findings

One of the critical components of the review of the Management Pay Plan is a survey that was developed and distributed to municipalities and other public employers in Wisconsin, the Midwest, and other comparable cities across the nation.

The survey included 30 questions regarding pay structure, pay administration practices, and classification systems. A summary of issues of importance within each category is presented below:

Pay Structure: determinations relative to the width of the pay ranges, open versus step structures, the amount of overlap between pay ranges, control points, the adjustments to the structure (versus adjustments to an individual's rate of pay).

Pay Administration: determinations relative to pay progression policies (pensionable increases vs. lump sum payments), other forms of compensation (i.e. skill based pay) salary recruitment flexibility, promotional increases, anniversary dates, and pay compression challenges.

Classification: the methodology used to evaluate and classify managerial jobs, the appropriate number of classifications and pay grades taking into account internal equity and external competitiveness (labor market) considerations.

Employers were also asked to identify job matches (including salary ranges) for 31 benchmark classifications within the City of Milwaukee. The classifications covered a wide range of occupations: engineering, nursing, human resources, information technology, library science, procurement/finance, inspection, and public works (operations). Brief descriptions of the duties and responsibilities of each benchmark class were provided to ensure comparability of job content. Benchmark classes were selected on the basis of:

- ◇ comparability to other organizations
- ◇ representation of various grade levels
- ◇ inclusion of cross section of managerial positions
- ◇ coverage of significant classes with large numbers of management employees.

A total of 39 employers were selected to participate in the survey. Fourteen (14) represented state and local municipalities including the State of Wisconsin and Milwaukee's other taxing units (Milwaukee Public Schools, MMSD, MATC, and Milwaukee County). A total of 10 represented other municipalities in Midwest cities and 15 represented municipalities in other U.S. cities.

Twenty one survey responses (54% response rate) were received and analyzed by staff. The findings of the survey in relation to pay structure and pay administration practices are presented below.

Category	City of Milwaukee	Range of Responses *	Average
Number of Management Titles	500	63 – 500	272.3
Number of Pay Ranges	20	7 – 42	20.1
Percentage Spread of Pay Ranges from Minimum to Maximum	40%	18% - 150%	49% (approximate)
Description of Pay Ranges	Steps	47% Open Ranges 32% Steps 11% Combination of Open Ranges and Steps 11% Other	
If Steps, the Number of Steps	12	3 – 18	8.4
If Steps, the Percentage Spread Between Steps	3.1%	2% - 25%	8% (approximate)
Use of Midpoints	No Midpoints	58% No Midpoints 42% Have Midpoints	

Category	City of Milwaukee	Range of Responses *	Average
Adjustments to Pay Structure Based on Increases for Union Positions?	Comparable to negotiated increases for union positions but not always the same.	55% (all or in part)	
Adjustments to Pay Structure Based on Market Cost of Labor?	No	35% (all or in part)	
Are Individual Salaries	Yes	95% Yes	

Adjusted When Adjustments are Made to the Pay Structure?		5% No	
Compensation Plan Design: Job Based/Person Based	Job Based	61% Job Based 11% Person Based 17% Combination 11% Other	
Recruitment Flexibility	Up to the 7 th Step with the approval of DER Director and Chair of Finance & Personnel. In the Salary Ordinance there are footnotes for some titles that allow recruitment above the minimum without approval.	100% reported some flexibility to hire above the minimum. Many reported discretion at the appointing authority level up to certain step and HR approval beyond that step	
Promotional Increase	3% for Minimum Increase No Maximum Increase	4% to 12% for Minimum Increase 4% to 20% for Maximum Increase	5.6% for Minimum Increase 9.8% for Maximum Increase
New Salary Anniversary Date after Promotion?	No	44% Yes 31% No 25% Depends on various factors	
Other Forms of Compensation for Employees at the Maximum of the Pay Range?	No (Except that pay is adjusted when across the board increases are granted).	58% No 42% Yes	
Pay for Performance Plan?	No	68% No 32% Yes	

* Please note that some employers did not respond to every question. The numbers and percentages in this column are based on the number of employers who responded to the specific question.

Summary

The preliminary findings from the survey along with DER's internal assessment of pay practices reveal that some pay structure and pay administration practices in Milwaukee are consistent with other municipal employers. However, the findings also reveal that other jurisdictions:

- (1) Have greater flexibility in salary determinations for recruitment purposes;

- (2) Provide for higher salary adjustments when employees are promoted into management classifications;
- (3) Establish new salary anniversary dates after promotion;
- (4) Tend to have fewer and more generic management titles/classifications;
- (5) Delegate some discretion to appointing authorities when making salary determinations in hiring and promotion decisions;
- (6) Have increasingly moved away from step pay structures to open ranges or a combination of open ranges and step structures for greater flexibility;
- (7) Use formal performance appraisal/evaluation tools to measure managerial performance and determine eligibility for merit increases (this does not imply that they have a pay for performance plan);
- (8) Are increasingly using lump-sum payments (non-pensionable) to recognize managers who attain special credentials or demonstrate exceptional performance;
- (9) Regularly adjust their pay structures based on increases granted to represented employees;
- (10) Maintain salary structures that are competitive by making market based adjustments.

We hope the above findings will give you a general idea as to how the City's pay practices compare to other public sector employers. They will serve as the framework for recommendations regarding changes to the Management Pay Plan later this year.

Sincerely,

Maria Monteagudo
Employee Relations Director